May 2018

JACK'S JOURNAL

Building Bridges Between Businesses and Nonprofits

By Jack Horak
Director, TANGO Nonprofit Education and Consulting

TANGO
JACK'S JOURNAL

Building Bridges Between Businesses and Nonprofits

TANGO's Annual Meeting will be taking place this Fall - and its theme will be **Building Bridges Between Business and Nonprofits.**

The reason for this topic is simple: Nonprofit organizations and business organizations are equally important to the health and welfare of their communities and both are responsible to their communities for the successful fulfillment of the tasks within their mission or line of business, as applicable.

To this end, I will use the next few issues of my monthly TANGO Trends column to set the stage for some of the themes that we will explore at the annual meeting, starting with an explanation of structural differences related to ownership and accountability that members of both sectors should understand about the other.

Part One: Ownership and Accountability

Business organizations have owners to whom they are directly accountable for performance.

The purpose or nature of a business organization is to sell goods or services profitably for the benefit of its owners.

The owners may be the shareholders of a corporation, the partners in a partnership, or the members of a limited liability company, but the underlying concept is the same: the owners (I'll use the term "shareholders") expect the governing board and the management team of the business to do a good job so that the businesses will operate profitably. The owners will also expect periodic distributions of profit, while simultaneously expecting that the value of their shares will rise (creating an additional profit opportunity in the form of a capital gain). The stockholders also have what is called "legal standing" to bring litigation against board members and management in appropriate circumstances.

There is nothing new about the scenario described above, but the following way of looking at it may be: The owner/investor decisions to buy or sell a company's shares collectively function as a means to evaluate the performance of the board and management - a kind of check and balance mechanism to keep the board and management on their toes. People buy shares when they believe the company is performing well and sell when they think it is not - and the collective buying and selling result in a price per share (up when people are buying and down when selling) that functions as a grade or a report card, or like a ball player's batting average. The pricing mechanism may not be perfect, but it is necessary, robust, and practical. Moreover, the ability of shareholders to sue directors and managers, even though extreme, tends to keep people focused.

Nonprofit organizations do not have outside owners to whom they are directly accountable for their performance.

The law prevents nonprofits from having owners – which is as it should be given that their purpose or nature is to fulfill a mission and not to make a profit - and because nonprofits are by law answerable to the public for their successes or failures.

The "public" is a vague and general term, and it is state Attorney General who acts as the spokesperson for the public - with the power to intervene and investigate if there is reason to do so. But interventions and investigations of this type occur when there are problems - and they do not serve as the type of general performance indicator or measure that businesses have in the form of their price per share.

This is not to say that nonprofits should not operate profitably (more revenue than expense) but is it to say: (a) that if they operate profitably the profit must be used for operations and the mission, and (b) that in a mission driven organization without owners operating profit (or loss) is not a measure or metric that can be used to measure mission performance. For example: an early childhood intervention program is not expected to be evaluated based on its profit or loss; nor can it really be evaluated on the basis of the program's lifelong effects on the children as they reach adulthood; but it can be measured on the basis of operating facts such as the number of children or families served.

The subjective nature of a nonprofit's mission (and they vary on this) helps explain the emergence in the marketplace of charity rating agencies (Charity Navigator, Charity Watch, GuideStar, Give Well, BBB Wise Giving Alliance and others), which gather and analyze available data about a nonprofit organization and publish their findings and conclusions (really an expression of the rating agency's reasoned opinion) for prospective donors and others.

<u>So, what the point of this discussion?</u> We are making these points to help businesses understand more about the operating pressures nonprofits face, and vice versa. To state it more specifically:

- Businesses have a finite and objective (measurable) purpose - selling goods or services in the market, with their success or failure measured in the price per share (the batting average). They exist in very competitive markets and when they underperform investors (shareholders) flee, putting the business at risk.

- Nonprofits generally have an infinite and subjective mission - often addressing intractable problems or trying to move society in a better direction, making it difficult if not impossible to provide performance metrics with anywhere near the precision of a price per share. This also means that potential donors must make their decisions based on factors different from the factors that shape an investor's decision.

[To be continued in my June 2018 column]

Contact Jack
Jack Horak
Director, TANGO Nonprofit Education & Consulting
135 South Road
Farmington, CT 06032
860-507-8902